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INTELLIGENCE MEMORANDUM

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CENTRAL INTELLIGENCE AGENCY

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SUBJECT: The new French crisis

The rapid worsening of its foreign trade balance and the uncertain outlook for financing its increased defense burden have brought France to the brink of national bankruptcy.

In order to avoid tapping its meager gold reserves, the government recently decided to withhold all licenses for imports from the other members of the European Payments Union. The Treasury is close to the end of its credits, and the resignation of the Faure Cabinet before approval of a 1952 budget makes more urgent a relaxation of the ceiling on credits to the Treasury by the Bank of France, notwithstanding the inflationary impact of this expedient.

Although only a temporary step, the prohibition of EPU imports is particularly critical inasmuch as it is a major stimulus to the chain reaction of measures by European countries against the trade liberalization program. While the flow of French dollar imports need not yet be sharply curtailed, restrictions on European imports also are a dangerously inflationary move and may soon preclude the steady rise in production levels essential to meet rearmament goals.

Belgian Premier Van Houtte, discussing with the American Ambassador the "grave concern" of government and business circles over the "visible crumbling" of the French financial position, warned of the effect "on the defense effort of France as a pivotal NATO country."

Even if full use were made of existing productive capacity, it is doubtful that the French could take complete advantage of the 200 million dollars in military contracts which the United States has just promised in the hope that France could meet its recently proposed four billion dollar goal for defense expenditures.

A protracted political crisis is almost inevitable as a result of outgoing Premier Faure's demand this week for a 15 percent tax increase and a sharp curtailment of government investment. These two problems will remain to plague any incoming government. Although a large majority of the deputies accept the necessity for rapid Western rearmament and a continuation of the exhausting war in Indochina, there is sharp disagreement in Parliament over the Faure government's program for French participation and a widespread belief that existing French military commitments are unrealistic.

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Acceptance by the Assembly of even a ten percent rise in taxes is improbable. Hence France is unlikely to fulfill its latest 1952 military commitments unless it resorts to a volume of inflationary financing which would be dangerous, even though small in relation to the total budget.

The French nation has reached a psychological stage which offers little hope that economic collapse can be averted by existing American aid commitments or by any measures of a middle-of-the-road parliamentary coalition. The danger of collapse is increased by the pressure from the unusually powerful speculative interests in France and by the universal anticipation of currency devaluation and further inflation.

Furthermore, the growing pessimism of the French over their economic and political future is aggravating their sense of inferiority within the Atlantic Community. It has made them cynical toward the Lisbon decisions and is making them more fearful of Germany's role in Western defense and more critical of American leadership.

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